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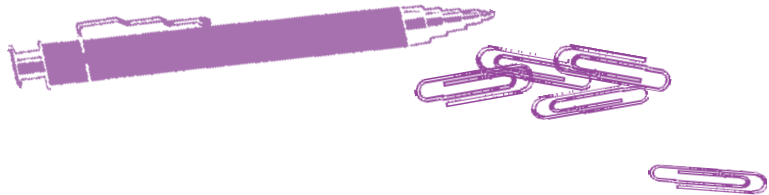
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Guide to the Managed Audit Program

Sales and Use Taxes



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Preface

This publication provides general information regarding the Board of Equalization's Managed Audit Program as well as specific instructions for managed audit procedures. The original Managed Audit Program expired on December 31, 2002. The program was reinstated effective January 1, 2004, as required by Revenue and Taxation Code sections 7076.1 through 7076.5.

Note

The statements in this publication are general and are current as of February 2004. The sales and use tax law is complex and subject to change. If there is a conflict between this publication and the law, any decisions will be based on the law and not on this publication.

1. Introduction

This publication provides general information regarding our Managed Audit Program. The program allows certain businesses to conduct a type of self-audit with instructions and guidance from one of our auditors. If you qualify for a managed audit and we approve your participation, you will enter into a Managed Audit Program (MAP) Participation Agreement (see page 15) and conduct many of the audit tasks that would ordinarily be performed by our auditor. This publication provides general information on the program and specific instructions for audit procedures.

Why should I do part of the audit work myself?

If you complete a managed audit and owe additional tax, you will pay interest on that tax liability at only one-half the rate that would otherwise apply. This can result in significant savings to you.

There are other benefits, too. In a conventional audit, our auditor typically reviews your records at your place of business, during working hours. In a managed audit, you can review your records whenever and wherever you like, as long as you finish your work within the time specified.

You'll also gain a more thorough understanding of how tax applies to your business transactions, what kind of records you should keep, and how to improve your business procedures that relate to sales and use tax. This will not only help you in your ongoing business operations but can help ensure that any future audits go smoothly.

Your decision to participate in a managed audit does not affect your right to appeal the audit results. In addition, your participation is entirely voluntary. There are no adverse consequences for choosing to have us conduct your audit in the usual manner.

What kind of work will I be doing?

Under the direction of our auditor and using instructions provided in your MAP Participation Agreement and this booklet, you will review your records to determine whether you have fully met your obligations under state, local, and district sales and use tax laws. You may be asked to review a representative sample of your sales and purchases or every transaction in the audit period.

Typically, you will examine your sales records to see whether you

- Correctly calculated and reported the sales tax due on your transactions.
- Have the required documentation to support any sales tax exemptions or exclusions you have claimed.

You will typically review your purchase records to determine

- Whether you paid California sales or use tax on the purchase.
- Whether you correctly calculated and reported the tax.

As you conduct the reviews, you'll fill out transaction worksheets with the information needed to determine whether you paid the correct amount of tax during the audit period (see samples on pages 7 and 11). Our auditor may also ask you to perform additional audit tasks, such as reviewing your sales tax returns. The auditor will review your work when you're done and determine whether you owe more tax, whether you are owed a refund, or whether your sales and use tax returns were correct as filed.

How will I know what to do?

Our auditor will indicate in the MAP Participation Agreement which books, records, and equipment purchases you must consider in your review and provide you with detailed instructions.

How much of my time will it take?

The amount of time needed to conduct the audit work will vary, depending on your business operations and records. Our auditor will give you an estimate of the time required, based on his or her experience.

What happens when I'm done with my portion of the work?

Our auditor will
review your
work before
completing
the audit.

When you've reviewed all of your records and completed the necessary worksheets, our auditor will review and verify your work to determine whether you adequately followed instructions and addressed any problem areas. When satisfied that you have accurately completed your part of the work, the auditor will complete the audit and arrange a conference with you to explain the audit results.

For more information regarding notification of audit results and subsequent steps in the process, please see publication 76, *Audits* (our auditor can provide a copy).

Will the auditor review any of the transactions?

Certain types of transactions are not appropriate for review in a managed audit, for example, those involving complex legal issues. If your records include such transactions, our auditor will notify you and let you know which books and records to make available for review. If our auditor's review indicates that you owe additional tax on these transactions, interest will apply at the reduced rate, provided you are still approved to participate in the Managed Audit Program.

Why is my business eligible for the Managed Audit Program?

Your business meets the criteria for our Managed Audit Program if the tax issues in your business are generally straightforward, your transactions are not subject to a number of sales tax exemptions, and you have the resources necessary to do the work.

Is there anything that guarantees that I'll get the reduced interest rate?

Yes. If you choose to participate in a managed audit, you will enter into a MAP Participation Agreement with us (form BOE-526—see sample on page 15). The agreement will

- Contain your name and account number.
- Specify the period of time covered by the audit.
- Specify a reasonable time period for you to complete your work (generally up to 90 days).
- Specify the types of transactions and records to be reviewed.
- Specify the review method and the periods for the records that will be reviewed.
- Specify the circumstances under which we may void the agreement.
- Specify the time period in which you must pay any tax and interest due.

The agreement explains the terms and conditions of your managed audit. Please read it carefully before you sign and date it. The District Principal Auditor of the office conducting your audit will also sign and date the form. You'll receive a copy for your records.

Can the Board terminate the MAP Participation Agreement?

Under certain circumstances, we can terminate (void) a MAP Participation Agreement. The agreement form includes a list of the events that may cause us to take this action. Please note that these events are unlikely to occur in a managed audit where the taxpayer cooperates fully with the auditor. If we terminate the MAP Participation Agreement, you will not receive the benefit of the reduced interest rate.

How long do I have to decide whether a managed audit is right for me?

Ask our auditor. The auditor must begin the audit as soon as possible and will need to make work plans based on your response. The auditor will usually give you a few days to consider how you would like to proceed.

What if I change my mind after I've started?

If after starting the work, you decide not to complete the managed audit, or you do not complete the work that you agreed to do, our auditor will finish the job. The full interest rate will apply to any tax liabilities that are disclosed by the audit.

2. Reviewing your sales

During an audit, the auditor customarily checks your sales records to be sure that you

- Computed the correct amount of tax.

- Properly reported tax on your transactions.
- Have documents in your records that support any untaxed sales.

In a managed audit, you will be doing this verification yourself. To help you determine whether you have properly reported tax, our auditor will provide you with publications that describe the most common nontaxable sales and charges: sales for resale, sales delivered outside California, shipping and delivery charges, and sales to the U.S. Government. The auditor will also give you information regarding cash discounts and nontaxable charges such as installation or repair labor.

Assembling your records for review

Our auditor will indicate in the MAP Participation Agreement which records you will review in the managed audit, as well as the test period and method you will use.

Verifying information in your records

You will need to carefully review your invoices, following procedures explained by our auditor and detailed in this section.

If you added an amount for tax to the sale

If your invoice shows that you added an amount for tax to the sale, you need to check the invoice to determine

- Whether you used the correct tax rate (for sales shipped into or out of special tax districts, see our auditor for help). All the rates in California are listed in our publication 71, *California City and County Sales and Use Tax Rates*, available on our website at www.boe.ca.gov/sutax/pam71.htm or from our Information Center (see page 13).
- Whether you properly calculated the tax amount (check against your sales tax table or calculate the amount of tax due with a calculator).

You should also check the invoice to make sure that you added an amount for tax to all taxable charges and did not add an amount for tax to nontaxable charges. The publications provided by your auditor should help you identify common nontaxable charges. If you're not sure how tax should apply to a transaction, contact our auditor.

If you find that your invoice lists either too much or not enough tax, you must enter information from the invoice on the blank worksheet provided by our auditor (see examples on pages 6 and 7).

If you did not add an amount for tax to all or part of the sale

If the invoice shows that you did not add an amount for tax to all or part of your charges, you must take these three steps:

- Enter information for the transaction on the sales worksheet provided by your auditor (see pages 6 and 7).

Sample invoices
and a partially
completed
worksheet are
found on
pages 6 and 7.

- Check your records to see if you have documents that support your decision not to add an amount for tax (see publications provided by our auditor).
- Note the type of document in the comment column of the worksheet (for example: *resale certificate*). If you do not have a customer-provided document on file, note the reason tax does not apply (for example: *repair labor*). If you do not have documentation for a sale for resale, see below.

Purchase orders

You should have a timely and valid resale certificate on file for customers who make resale purchases using purchase orders. In general, each purchase order should indicate whether the customer's purchase was for resale or whether it was taxable. If the purchase order includes items to be resold *and* items to be used, it must specify which items are being purchased *for resale* (in those words) and which are being purchased for use. You must list on your transaction worksheet any transactions involving a purchase order if you did not add a tax amount to all or part of the sale.

Be sure to set aside your support documents for our auditor to review.

Alternative method—verifying sales for resale

As you know, accepting a valid resale certificate in good faith from your customer at the time of a sale relieves you of responsibility for the tax that would otherwise be due. You must retain resale certificates as part of your records. If in verifying a transaction you find that you do not have a valid resale certificate on file or that you do not have other adequate support documents in your records, you may use an alternative verification procedure.

In this procedure, you will send a letter to your customer along with a Board form (*Statement Concerning Property Purchased Without Payment of California Sales Tax*, BOE-504-C). Ask our auditor for written and oral instructions, a sample letter (called an "XYZ" letter), and copies of the form. Return of the completed form by your customer may relieve you of liability for tax on the transaction, provided your customer properly purchased the item for resale or paid the applicable tax.

Completing your sales verification worksheet

Our auditor will provide you with paper or electronic transactions worksheets on which you'll enter information for the sales identified earlier in this section. The next two pages show sample invoices and a sample sales worksheet completed with information from the invoices.

As you complete your sales worksheet with information from your actual invoices, you may find that you have questions that are not addressed in this guide or that you're not sure exactly what information to include. Contact our auditor if you need more help.

Be sure to keep all listed invoices and related records available for our auditor's review.

Sample invoice review

Coast Widgets San Diego, CA

24207

Date: January 2, 2002**P.O. #** n/a**Sold to:**

Cristina Customer
1121 Any Street
San Diego, CA 92123

Ship to:

counter sale

Item	Cost	Extension
1 widget	250.00	250.00
subtotal		250.00
sales tax @ 7.25%		18.13
shipping		n/a
total		\$ 268.13

Taxable sale

As you review this invoice, you check to see whether you properly calculated the tax amount. You find that your clerk used the wrong tax rate (the rate for your San Diego location is 7.75 percent, not 7.25 percent). The correct tax amount, according to your tax rate table, is \$19.38. You must list this invoice on your worksheet (see line 3 on worksheet, next page).

Nontaxable sale

You must enter information for nontaxable sales on your sales worksheet (see worksheet line 2, next page). As you review this invoice for a nontaxable sale for resale, you check to make sure you have a timely and valid resale certificate or other documentation on file. Since you find a resale certificate in your records, you note that on the worksheet in column N, "Comment."

Coast Widgets San Diego, CA

24203

Date: January 2, 2002**P.O. #** 1503**Sold to:**

Roger Retailer
1112 Hill Street
San Diego, CA 92123

Ship to:

customer's address
CV Express

Item	Cost	Extension
10 widgets	250.00	2500.00
subtotal		2500.00
sales tax		resale cert. on file
shipping		12.50
total		\$ 2512.50

Tips for completing your sales worksheet

Note: Lines 2 and 3 below are completed with information from the sample invoices on the previous page.

	A	B	C	D	E	F	G	H
REF	DATE	SALES INVOICE NUMBER	CUSTOMER NAME	STREET	CITY, STATE, ZIP	SHIP TO	PO NUMBER	PO STATUS
1						①		②
2	1/2/02	24203	Roger Retailer	1112 Hill Street	San Diego, CA 92123	same	1503	R
3	1/2/02	24207	Cristina Customer	1121 Any St.	San Diego, CA 92123	will call	n/a	
4								

I	J	K	L	M	N	O	P
ITEM	AMOUNT QUESTIONED	AMOUNT TAXABLE	DISTRICT MEASURE	DISTRICT CODE	COMMENT	XYZ SENT	1164 SENT
③	④				⑤		⑥
10 widgets	2500.00				resale certificate		
1 widget	250.00				wrong rate—7.25%		

Please note: Your auditor will complete columns, K, L, M, and P, shown above in gray. Please leave these columns blank on your worksheet.

- ① Enter “will call” for over-the-counter sale, “same” if item delivered to customer’s address, name of city if item delivered to another destination (include state if not California).
- ② For sales by purchase order only: enter “R” if customer indicated purchase was for resale; “T” if taxable. If part of sale was not taxable or if customer indicated “not taxable” on purchase order, make note in the “Comment” column.
- ③ Enter quantity and description of merchandise sold.
- ④ Enter amount of sale listed on the invoice, *not including* tax amount or any nontaxable shipping charges (see publication 100, *Shipping and Delivery Charges*). If you’re not sure what amount to enter, ask your auditor.
- ⑤ If you did not add tax to all or part of the sale, enter the type of support documentation you have in your records (see page 4). If you do not have a customer-provided document, enter the reason tax did not apply. If you should have added a tax amount, see next paragraph.
- If you added tax incorrectly (see page 4), you will need to do one of the following:
 - If you used the wrong tax rate, enter “wrong rate” and the rate used.
 - If you reported the wrong tax amount because of a math error or misreading of a tax table, enter “tax miscalculated.”
 - If you added tax to a nontaxable charge, enter “overpaid tax.”
 - If you did not add a tax amount to a taxable charge, enter “underpaid tax.”
- ⑥ If you have sent an “XYZ” letter to the customer to verify a sale for resale, make an X in this column (see page 5).

3. Reviewing your purchases

During an audit, our auditor would typically examine your purchase invoices to determine whether you

- Properly added tax to your purchase transaction.
- Correctly calculated the tax amount.

In a managed audit, you may perform these tasks yourself. If you find that use tax was not properly added or calculated on a purchase, you will enter information from your invoice on a purchase worksheet provided by our auditor.

Before you begin your review, you may wish to read the “Reminder” section below, which provides a short explanation of how sales and use tax applies to purchases. You may also wish to refer to the publications provided by our auditor for guidance regarding nontaxable purchases.

Assembling your records for review

Our auditor will indicate in the MAP Participation Agreement which records you will review in the managed audit, as well as the test period and method you will use.

Reminder: How tax applies to your purchases

While your purchases for resale are not taxable, your purchases of items that you *use* rather than sell or hold for sale in your business are generally subject to sales or use tax. Common examples include purchases of business furniture, machinery, and office equipment and supplies (unless you normally sell these products in your business). Tax applies to your purchases at the same rate you would apply to an over-the-counter sale.

You must pay use tax directly to us on certain types of purchases, based on the price you pay for the merchandise. You must generally report use tax on your sales and use tax return if you

- Purchase an item for resale and then make business or personal use of the item before selling it or instead of holding it for sale, or
- Purchase an item from a vendor outside of California and use it in your business or for personal use. However, you are not liable for direct payment of the use tax if the vendor holds a California seller’s permit or *Certificate of Registration–Use Tax*, collects California use tax on the transaction, *and* provides you with a receipt showing the amount of tax collected. Out-of-state vendors who collect use tax must indicate their *Certificate of Registration–Use Tax* number on their receipts.

California retailers will generally add an amount for sales tax to your purchase unless you issue them a valid resale certificate. However, if your business is operating in a special tax district and the vendor is not engaged in business there, the vendor may compute tax at the statewide rate rather than the higher

rate in effect in the district. If a vendor not engaged in business in your district uses a tax rate lower than the district rate, you owe the balance of the use tax (difference between the tax amount charged you and the correct tax amount).

Note: Tax rates in this publication may not be current. Be sure to use the correct rates in your audit.

Example: Your business—a pet store—is located in Los Angeles County, where the total sales and use tax rate is 8.25 percent (statewide rate of 7.25 % + two 0.50% special district taxes). You buy a \$200 display case from a vendor in Nevada County, who ships it directly to you and computes tax at the statewide rate of 7.25 percent. You are liable for paying the remaining 1 percent of district tax due (8.25% total L.A. County rate – 7.25% statewide rate = 1% unpaid district tax. \$200 purchase X 1% = \$2.00 tax due).

Reviewing your purchase invoices

Our auditor will specify in the MAP Participation Agreement which invoices you must review as part of your managed audit, and provide printed or electronic transaction worksheets for your use. You must review each invoice and make sure that you paid tax when it was due and that you paid the correct amount (see previous section). Be sure to check the amount of tax by using a tax rate table for the rate in effect at your location. You should also check to see whether you paid another state's tax on the transaction, or whether you paid use tax on the purchase on your sales and use tax return.

You must list information for a purchase on your purchase transaction worksheet if you find that you did any of the following:

- Overpaid or underpaid sales or use tax.
- Did not pay tax to your vendor but did pay use tax on the purchase on your sales and use tax return.
- Paid California sales or use tax to an out-of-state seller.
- Paid another state's tax on the purchase.
- Did not pay tax but believe that your vendor paid use tax on your purchase (see next paragraph).

If you believe that your vendor may have paid use tax on your purchase, thereby relieving you of responsibility for all or part of the tax, you may send the vendor our form letter to verify their tax payment. Your auditor can provide you a packet (forms BOE-503 A, B, and C) that includes instructions, a sample letter (called an "ABC" letter), and a form for your vendor to complete.

Completing your purchase worksheet

The next two pages show sample invoices and a sample purchase worksheet completed with information from the invoices. As you complete your worksheet with information from your own purchase invoices, you may find that you have questions that are not addressed in this guide or that you're not sure exactly what information to include. Contact our auditor if you need more help.

Be sure to keep all listed invoices and related records available for our auditor's review.

Purchase review examples

Nevada Supply, Inc. **70422**
3047 Sierra Way
Reno, NV

Date: January 11, 2002 **P.O. #** 1001

Sold to: *Coast Widgets*
 245 Valley Way
 San Diego, CA 92123

Ship to: *same*
 XYZ Parcel Service

Item	Cost	Extension
computer supplies		75.00
subtotal		75.00
sales tax		0
shipping		9.00
total		\$ 84.00

Purchase on which you did not pay tax

On reviewing this purchase invoice, you find that you did not pay California use tax on the purchase of computer supplies you used in your office operations. You must enter information from this invoice on your purchase worksheet (see line 2 on sample worksheet, next page).

Purchase on which you paid part of the tax due

On reviewing this purchase invoice for a display case, you find that the vendor calculated the tax amount at the statewide rate, 7.25 percent, rather than the rate in effect in your special tax district, 7.75 percent. You must enter information from this invoice on your purchase worksheet (see line 3 on sample worksheet, next page).

CalCase **3270**
4205 5th Street
Riverside, CA

Date: January 15, 2002 **P.O. #** 1005

Sold to: *Coast Widgets*
 245 Valley Way
 San Diego, CA 92123

Ship to: *same*
 ABC Trucking

Item	Cost	Extension
lge display case	1200.00	1200.00
subtotal		1200.00
sales tax	@ 7.25 %	87.00
shipping		55.00
total		\$ 1342.00

Tips for completing your purchase worksheet

Note: Lines 2 and 3 below are completed with information from the sample invoices on the previous page.

	A	B	C	D	E	F	G	H	I	J
REF	DATE	INVOICE NUMBER	VENDOR	STREET	CITY, STATE, ZIP	SHIP FROM	SHIP TO	PO NUMBER	PO STATUS	RC ISSUED
1		①	②			③	④	⑤	⑥	⑦
2	1/11/02	70422	Nevada Supply, Inc.	3047 Sierra Wy.	Reno, NV 89503	NV		1001	T	no
3	1/15/02	3270	CalCase	4205 5th St	Riverside, CA 92501	CA		1005	T	no

K	L	M	N	O	P	Q	R	S
ITEM	AMOUNT QUESTIONED	AMOUNT TAXABLE	DISTRICT MEASURE	DISTRICT CODE	COMMENT	ABC SENT	1032 SENT	1164 SENT
	⑧				⑨	⑩		
computer supplies	75.00				use tax not paid			
display case	1200.00				district tax not paid			

Please note: Your auditor will complete columns, M, N, O, R, and S, shown above in gray. Please leave these columns blank on your worksheet.

- ① Vendor's invoice number.
- ② Name of vendor from whom you purchased item.
- ③ State from which item was shipped (2-letter abbreviation).
- ④ California city to which vendor shipped the item, if different from your city.
- ⑤ Your purchase order number, if any.
- ⑥ Your purchase order status. Enter "R" for resale; "T" for taxable. If partially taxable, note in col. P, "Comment."
- ⑦ Enter "yes" if you issued a resale certificate to the vendor; "no" if you did not.
- ⑧ Total amount of purchase, not including tax amount and nontaxable shipping charges (see publication 100, *Shipping and Delivery Charges*). If you're not sure what amount to enter, ask our auditor.
- ⑨ For each entry, if you
 - Underpaid or overpaid the tax amount, enter comment explaining reason (see above).
 - Paid another state's tax on the purchase, enter "paid (state abbreviation) tax."
 - Paid use tax on your sales and use tax return, enter: "paid use tax on return" and reporting period.
 - Did not pay an amount for tax but believe that your vendor paid the tax, enter "vendor paid tax."
 - Paid California tax to an out-of-state seller, enter "paid tax to seller outside CA."
- ⑩ Place an X in this column if you sent an "ABC" letter to your vendor to verify that they paid tax (see page 9).

4. Finishing up the audit

When you're done with your portion of the work, our auditor will review and verify your sales and purchase worksheets, support documents, and invoices. When the review is complete, the auditor will arrange to hold an exit conference with you. If you prefer, you may be represented by another person or bring a representative with you. Our auditor's supervisor may also attend the conference. At the conference, the auditor will explain any proposed credits, refunds, or additional tax resulting from the audit, or let you know that your returns have been accepted as filed.

Notice of final audit results

Our auditor will prepare a *Report of Field Audit* that summarizes the audit findings and submit it to the District Audit Reviewer. (You will receive a copy of the *Report*, which is *not* a billing or refund). If you agree with the audit results after the *Report* has been reviewed for accuracy, the report will be sent to our Sacramento Headquarters. We will issue a billing (*Notice of Determination*), a refund (*Notice of Refund*), or a letter indicating that you do not owe additional tax.

If you disagree with the audit results, there are further review and discussion steps.

If you disagree with the audit results, there are further review and discussion steps involved before a notice is issued. See publication 76, *Audits*, for more information (see "Notice of Audit Results" section).

Notice of Determination

If you receive a *Notice of Determination* indicating that you owe additional tax, please take care to note its issue date. Within 30 days of that date, you must either pay the billed amount, or if you disagree with the report and notice, file an appeal ("petition for redetermination"). If you do not take either action within that time period, you will be assessed a penalty equal to *ten percent of the unpaid tax due*. If you continue not to pay the billed amount, we may take collection actions, including filing liens or levies. In addition, if you do not pay on time, we may void your Managed Audit Program Agreement.

Important: Interest continues to accrue until you pay all tax due. If you disagree with the results of your audit, you may want to pay the amount shown on the *Notice of Determination* to stop the accrual of interest, then file a claim for refund of the disputed amount (see publication 76, *Audits* and publication 17, *Appeals Procedures*, and publication 117, *Filing a Claim for Refund*). If you need to make payment arrangements, please contact the Board of Equalization office that handles your account. Our auditor cannot accept tax payments.

Notice of Refund

Before any refund can be issued, our staff must first determine whether you have an outstanding tax liability with the Board or any other state agency. If you do have such a liability, we may be required to transfer enough of the refund amount to cover it. In addition, refunds over \$50,000 must be approved

by the Members of the Board of Equalization. When an approved refund is \$50,000 or less, the State Controller's Office normally mails the *Notice of Refund* and a check for the refund amount about four to eight weeks after our Sacramento Headquarters receives the *Report of Field Audit*.

5. Appealing the results of your audit

Participation in a managed audit does not change your right to appeal the audit results. For more information regarding your appeal rights and the appeals process, please consult with your auditor. Detailed information is also found in our publication 17, *Appeals Procedures: Sales and Use Taxes and Special Taxes*. If our auditor did not give you a copy early in the audit process, you can ask for one or call our Information Center for a copy (see below).

6. For more information

For help with your managed audit, please contact your Board auditor.

For answers to general tax information questions not related to your audit, please call our Information Center at **800-400-7115** (TDD/TTY: 800-735-2929).

Publications and Regulations

You may also order publications, forms, and regulations from the Information Center. Call anytime day or night, seven days a week. Check our faxback service for the documents you need or ask us to mail them to you.

Related Board publications

- 17 Appeals Procedures: Sales and Use Taxes and Special Taxes
- 76 Audits
- 117 Filing a Claim for Refund
- 100 Shipping and Delivery Charges
- 101 Sales Delivered Outside California
- 102 Sales to the U.S. Government
- 103 Sales for Resale
- 105 District Taxes and Delivered Sales
- 112 Purchases from Out-of-State Vendors
- 70 The California Taxpayers' Bill of Rights
- 58-A How to Inspect and Correct Your Records

A complete list of Board publications is available in publication 51, *Guide to Board of Equalization Services*.

Related regulations include:

- 1614 Sales to the United States and Its Instrumentalities
- 1620 Interstate and Foreign Commerce

Internet users:
You may download publications and regulations from our website:
www.boe.ca.gov

Regulations, continued

1628	Transportation Charges
1668	Sales for Resale
1685	Payment of Tax by Purchasers
1698	Records

Written Tax Advice

For your own protection, it is best to get tax advice in writing. You may be relieved of tax, penalty, or interest charges that are due on a transaction or activity if we determine that you reasonably relied on incorrect written advice from us regarding the transaction or activity. For this relief to apply, a request for advice must be in writing, identify the taxpayer to whom the advice applies, and fully describe the facts and circumstances of the transaction. Please send your request to the Board office that handles your account.

Taxpayers' Rights Advocate

If you have been unable to resolve a disagreement with the Board or would like to know more about your rights under the Sales and Use Tax Law, please contact the Taxpayers' Rights Advocate for help:

Taxpayers' Rights Advocate Office, MIC: 70
State Board of Equalization
P.O. Box 942879
Sacramento CA 94279-0070

Phone: 888-324-2798 (toll-free) or 916-324-2798

Fax: 916-323-3319

Field Offices

City	Area Code	Number	City	Area Code	Number
Bakersfield	661	395-2880	San Francisco	415	356-6600
Culver City	310	342-1000	San Jose	408	277-1231
El Centro	760	352-3431	San Marcos	760	510-5850
Eureka	707	445-6500	Santa Ana	714	558-4059
Fresno	559	248-4219	Santa Rosa	707	576-2100
Kearny Mesa	858	636-3191	Stockton	209	948-7720
Laguna Hills	949	461-5711	Suisun City	707	428-2041
Long Beach	562	901-2483	Torrance	310	516-4300
Norwalk	562	466-1694	Van Nuys	818	904-2300
Oakland	510	622-4100	Ventura	805	677-2700
Rancho Mirage	760	346-8096	West Covina	626	480-7200
Redding	530	224-4729	<i>For Out-of-State Accounts</i>		
Riverside	909	680-6400	Chicago, IL	312	201-5300
Sacramento	916	227-6700	Houston, TX	281	531-3450
Salinas	831	443-3003	New York, NY	212	697-4680
San Diego	619	525-4526	Sacramento, CA	916	227-6600

MANAGED AUDIT PROGRAM PARTICIPATION AGREEMENT

NAME	ACCOUNT
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This is a Managed Audit Program (MAP) Participation Agreement between the California State Board of Equalization (Board) and _____ (taxpayer)

TAXPAYER'S NAME

in accordance with sections 7076.1 through 7076.5 of the California Revenue and Taxation Code. (All subsequent references to section numbers refer to the California Revenue and Taxation Code.)

1. For the managed audit to be conducted under the MAP for the period beginning on _____ and ending on _____, the taxpayer represents that

DATE

 - The taxpayer's business involves few or no statutory exemptions and a single or a small number of clearly-defined taxability issues, and
 - The taxpayer agrees to participate in the MAP and has the resources to comply with the managed audit instructions provided by the Board.
2. The taxpayer shall complete the managed audit on or before _____ in accordance

DATE

 with the instructions in this agreement. The taxpayer shall make available to the Board by this date all computations, all transaction worksheets (as described in paragraph 3 below), and all books, records, and equipment relating to the managed audit for verification by the Board.
3. The types of transactions covered by this managed audit are listed in Section 1 of the Appendix of this agreement. In performing the managed audit, the taxpayer shall
 - Review and separately maintain for verification by the Board the books, records, and equipment specifically identified by the Board in Section 2 of the Appendix,
 - Follow the specific procedures listed in Section 2 of the Appendix to determine the amount of the unreported tax liability, if any,
 - Schedule the transactions relating to each of the books, records, and equipment identified in Section 2 of the Appendix by completing transaction worksheets provided by the Board, in accordance with the instructions in Board publication 53, *Guide to the Managed Audit Program*, a copy of which has been given to the taxpayer, and
 - Follow the special instructions (criteria), if any, described in Section 3 of the Appendix.
4. When the taxpayer has completed the managed audit, the Board may verify the results of the managed audit by reviewing the documents prepared by the taxpayer, by examining the books, records, and equipment of the taxpayer, and by taking any other necessary actions to verify the results of the managed audit, including requesting further information and documentation from the taxpayer.
5. If the Board determines that certain types of transactions should be audited by the Board and not by the taxpayer under the MAP, the Board shall notify the taxpayer either during or after the managed audit which types of transactions will be reviewed by the Board and what books, records, and equipment the Board must examine. If the Board determines that an unreported tax liability exists for those types of transactions which the Board audits pursuant to this paragraph, the interest rate set forth in paragraph 7 shall apply with respect to that liability unless the Board voids this agreement pursuant to paragraph 10.
6. Upon completion of the managed audit by the taxpayer, the verification of the managed audit by the Board, and the audit by the Board of transactions not audited under the MAP, the liability, if any, may be determined and collected by the Board and petitioned by the taxpayer in the manner provided in chapter 5 (commencing with section 6451) and chapter 6 (commencing with section 6710) of Revenue and Taxation Code part 1, division 2. As provided by section 6565, all determinations made by the Board under these

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Current as of February 2004

provisions of the Revenue and Taxation Code are due and payable at the time they become final. If they are not paid when due and payable, the Board shall add to them a penalty of 10 percent of the amount of the determination, not including interest and penalties.

7. Upon completion of the managed audit and verification by the Board, interest shall be computed at one-half the rate that would otherwise be imposed for liabilities covered by the audit period, in accordance with section 7076.4. This reduced interest rate shall remain in effect until the tax liability is paid in full unless the Board voids this agreement as provided in paragraph 10.
8. As provided in section 7076.2, subdivision (b), the information provided by the taxpayer shall be the same information required for the completion of any other audit that the Board may conduct.
9. Nothing in this agreement shall limit the Board's authority, under section 7054, to examine the taxpayers' books, records, and equipment. Nothing in this agreement shall limit the authority of the Board to determine an unreported tax liability or a refund or credit greater than or less than the unreported tax liability or refund or credit computed by the taxpayer in the managed audit.
10. The Board may void this agreement if the Board determines that
 - The taxpayer has failed to complete the managed audit by _____ in accordance with the provisions in this agreement, DATE
 - The taxpayer has refused to cooperate with the Board during the verification process described in paragraph 4 above or has refused to cooperate with the Board if the Board audits any transactions as provided in paragraph 5 above,
 - Any of the penalties under sections 6484, 6485, 6485.1, 6514, or 6514.1 should be imposed during the audit period,
 - There is jeopardy of collection under section 6536, or
 - The taxpayer has not paid the tax, interest, and penalties resulting from the managed audit (1) within 30 days of the issuance date of the related *Notice of Determination* or (2) as agreed upon in a formal installment payment agreement.

If the Board determines that this agreement should be voided, the Board shall notify the taxpayer in writing. If the Board voids this agreement, interest shall be computed at the full rate as provided in section 6591.5. In addition, the Board may proceed to examine the taxpayer's books, papers, records, and equipment in a manner to be determined by the Board, and any liability may be determined and collected by the Board and petitioned by the taxpayer in the manner provided in chapter 5 (commencing with section 6451) and chapter 6 (commencing with section 6701) of the Revenue and Taxation Code.

11. The Board has given the *Guide to the Managed Audit Program* to the taxpayer for instructional purposes. If there is a conflict between that publication and the Sales and Use Tax Law or this agreement, the Sales and Use Tax Law and this agreement shall control.

SIGNATURE (name of taxpayer)	DATE
NAME/TITLE (print full name and title)	
SIGNATURE (Board of Equalization District Principal Auditor)	DATE
NAME/TITLE (print full name and title)	

Current as of February 2004

APPENDIX

Managed Audit Program Participation Agreement

NAME	ACCOUNT NUMBER
AUDIT PERIOD From	To

SECTION 1

The types of transactions to be audited by the taxpayer are checked below:

- | | |
|---|--|
| <input type="checkbox"/> Sales for Resale | <input type="checkbox"/> Installation Labor |
| <input type="checkbox"/> Sales of Property Shipped Outside California | <input type="checkbox"/> Repair Labor |
| <input type="checkbox"/> Shipping and Delivery Charges | <input type="checkbox"/> Cash Discounts |
| <input type="checkbox"/> Sales to the United States Government | <input type="checkbox"/> Property Purchased For Resale |
| <input type="checkbox"/> Purchases from Out-of-State Vendors | |
| <input type="checkbox"/> Other: _____ | |

SECTION 2

The books, records, and equipment that are to be reviewed by the taxpayer are checked below:

- | | |
|--|---|
| <input type="checkbox"/> Sales Invoices | <input type="checkbox"/> Freight Bills |
| <input type="checkbox"/> Sales Contracts | <input type="checkbox"/> Other Shipping or Delivery Documentation |
| <input type="checkbox"/> Resale Certificates | <input type="checkbox"/> Purchase Orders |
| <input type="checkbox"/> Bills of Lading | <input type="checkbox"/> Purchase Invoices |
| <input type="checkbox"/> Other: _____ | |

The procedures to determine the amount of any unreported tax liability are described on pages 4 through 11 of the *Guide to the Managed Audit Program*. The taxpayer will be reviewing the books, records, and equipment checked above for the following periods:

TEST PERIODS

Description of method for review: _____

SECTION 3

Special Instructions (Criteria):

- ☐ None
- ☐ Other: _____

continues on reverse

Current as of February 2004

SECTION 3

Continued from reverse

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SIGNATURE (name of taxpayer)

DATE _____

NAME/TITLE (print full name and title)

SIGNATURE (Board of Equalization District Principal Auditor)

DATE

NAME/TITLE (print full name and title)

Current as of February 2004

**State Board of Equalization
PO Box 942879
Sacramento, CA 94279-0001**